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Briefing Report to the Chairman,
Subcommittee on Oversight,
Committee on Ways and Means
House of Representatives

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TAX ADMINISTRATION

IRS' Automated Collection System

ORIGINAL

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The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This report responds to your May 23, 1985, request that we conduct a review of the Internal Revenue Service's (IRS') Automated Collection System (ACS)--a computerized system designed to manage collection cases and to improve communications between IRS and taxpayers. Specifically, you asked that we monitor at least 100 ACS telephone calls, analyze the sampled cases, and report on any problems. This report presents (1) a general overview of IRS' collection system for obtaining delinquent returns and collecting delinquent taxes, (2) a description of how ACS fits into IRS' overall collection system, and (3) the results of the calls we monitored and our case analysis.

Acting as agents of the House Committee on Ways and Means, we monitored 198 telephone calls at 4 of IRS' 21 ACS call sites. We judgmentally selected the ACS sites to obtain a mix in terms of geographic locations and size of operations. At each call site, we judgmentally selected the calls we monitored to obtain a mix of incoming and outgoing calls, business and individual taxpayers, and delinquent tax accounts and delinquent return investigations. We followed up the calls by analyzing the cases and reviewing IRS' collection policies and procedures. Our work was performed from September 1985 to May 1986 in accordance with generally accepted government audit standards.

Our analysis of the monitored telephone calls showed that ACS personnel generally treated the taxpayers fairly when processing the calls. That is, if a taxpayer claimed that IRS was in error, IRS attempted to reconcile the problem before taking any additional actions, and IRS' actions to resolve any errors were generally reasonable based on information available to ACS personnel. The problems discussed in this report were caused primarily by errors in processing and posting of tax information and payments and the unavailability to ACS personnel of certain taxpayer information in IRS files.

As requested by your office, we did not obtain official comments from IRS. However, Collection Division officials reviewed a draft of this document, and we considered their comments in preparing the final product. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30

days from the date of issuance. At that time we will send copies to the Internal Revenue Service, to congressional committees having an interest in the matters discussed, and to other interested parties.

Sincerely yours,

Johnny C. Finch

Johnny C. Finch
Senior Associate Director

THE INTERNAL REVENUE SERVICE'S AUTOMATED COLLECTION SYSTEM

This report discusses IRS' collection process, ACS operations, and the results of our monitoring selective ACS calls.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to monitor a sample of telephone calls made through ACS and to determine the disposition of these collection cases. As agreed with the subcommittee staff, we did not perform the extent of work necessary to express an opinion on the overall efficiency and effectiveness of the collection process or ACS.

Acting as agents of the House Committee on Ways and Means, we monitored 198 telephone calls at 4 of IRS' 21 ACS sites--Boston, Massachusetts; Chicago, Illinois; Laguna Niguel, California; and St Louis, Missouri. We judgmentally selected these sites to obtain a mix of geographic locations and size of operations. At each site, we judgmentally selected calls to obtain a mix of incoming and outgoing calls, business and individual accounts, and delinquent tax accounts and delinquent return investigations. We attempted to monitor 50 calls at each site made during September and October 1985. Because our sampling was not statistical, the information presented in this report cannot be projected to the universe of cases handled on ACS.

We followed up on the calls by obtaining case information from IRS' National Computer Center, Service Centers, and ACS sites. We also interviewed IRS officials and reviewed collection policies and procedures at IRS' National Office, Midwest Region, Chicago District, Kansas City Service Center, and the four ACS call sites.

OVERVIEW OF IRS' COLLECTION PROCESS

Although the majority of taxpayers voluntarily file returns and pay their taxes on time, some taxpayers are delinquent in meeting these obligations. When IRS determines that taxpayers are potentially delinquent in filing returns or have failed to pay their taxes, the collection process begins. The Collection Division, within IRS, is responsible for obtaining delinquent returns and collecting delinquent taxes.

The procedures for obtaining delinquent returns differ from those for collecting delinquent taxes. When IRS is investigating a potentially delinquent return, it attempts to determine through contact with the taxpayer or through other means whether the taxpayer should have filed a tax return. If the taxpayer is required to file a return, IRS is authorized to secure the return from the taxpayer or to file the return on behalf of the taxpayer.

IRS ascertains that taxes are delinquent through its returns processing operations or based on examinations of tax returns. IRS actions to collect delinquent taxes can include (1) letters and telephone calls demanding full payment, (2) installment agreements between IRS and the taxpayers to pay their delinquent taxes, (3) liens which constitute legal claims upon all property, whether real or personal, belonging to the taxpayers, and (4) levies of taxpayer's property.[1] IRS can also suspend collection action for various reasons: for example, if the delinquent amount due is under a certain tolerance level or the taxpayer's financial situation shows that no payments can be made at the time.

IRS' process for obtaining delinquent returns and collecting delinquent taxes involves three distinct phases. The first phase consists of a series of computer-generated notices or bills sent to the delinquent taxpayers from IRS' collection branches at the service centers. Delinquent cases which are not settled during the notice phase are processed through ACS which involves contacting the taxpayers by telephone to try to settle the cases. If the cases cannot be resolved through either the notice or ACS process, the cases are sent to a revenue officer in one of IRS' 63 district offices. Revenue officers attempt personal contact with the taxpayers to resolve the delinquency.

HOW ACS OPERATES

ACS is a computerized system designed to provide efficient case management and improved taxpayer contact. ACS personnel can automatically dial the taxpayer's telephone number, access case information, update the taxpayer's case, and initiate actions for future followup. The system consists of a network of computer systems located at the 10 IRS service centers and at 21 ACS sites nationwide. Each service center computer supports

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[1]IRS can legally levy a taxpayer's property or rights to property if the taxpayer refuses to pay the tax. IRS categorizes its levy actions into (1) seizures of assets in the possession of third parties, generally banks and employers, and (2) seizures of property in the possession of the taxpayer.

at least two ACS sites, each with its own computer system. The service center ACS computer transmits case files and updated account information to its associated ACS sites via telecommunication lines.

To resolve delinquent cases, ACS is composed of four functions which interact with each other. These functions are:

1. Contact (ACS site) - handles telephone contact with taxpayers.

2. Investigation (ACS site) - searches for taxpayers and their assets.

3. Research (ACS site) - responds to taxpayer correspondence and makes appropriate adjustments.

4. Support (Service Center) - supports the ACS site by providing research of suspense files, inputting information from other IRS sources, and generating levies and letters to the taxpayer.

One of the first tasks performed by ACS is an automated analysis of the delinquent cases for taxpayer levy sources and telephone numbers. If levy sources are available the system will generally automatically issue a levy. Cases are then scheduled for one of three actions: monitoring, taxpayer contact, or further research to locate taxpayers and any additional assets. Those cases in which taxpayer telephone numbers are readily identified, but levy sources are not, are sent to a unit which will attempt taxpayer contact. Cases for which neither telephone numbers nor levy sources can be readily identified are sent to a unit which will do further research toward identifying addresses, telephone numbers, and levy sources.

RESULTS OF CALLS MONITORED AND CASES ANALYZED

We monitored 198 telephone calls which represented 212 cases--136 delinquent tax liability cases and 76 delinquent tax return cases. Our results showed that IRS generally treated these taxpayers fairly when processing cases on ACS. That is, if a taxpayer said IRS was in error, IRS attempted to reconcile the problem before taking additional actions, and IRS' actions to resolve the cases were generally reasonable based on information available to ACS personnel. However, we did observe two problems involving 72 of the 212 sampled cases which affected the taxpayers' records and/or the way the cases were handled. We identified a total of 84 problem transactions in these 72 cases.

One problem, found in 52 of the 84 transactions, involved the inaccurate processing or posting of tax payments or other taxpayer information. While these errors could have been caused by either the taxpayer or IRS, we were unable to determine in most cases who caused the errors due to the absence of documentation. Regardless of who was at fault, additional time and effort on the part of both the taxpayers and IRS were required to finally resolve the errors. The second problem, involving the remaining 32 transactions, resulted from information that was in IRS' files but was not readily available to ACS personnel. We found that the unavailability of certain information resulted in inconvenience to the taxpayers and the expenditure of additional time by IRS to resolve the errors.

Taxpayer responses and IRS actions

Although most of the taxpayers contacted through ACS agreed with IRS' initial determination that the taxes or returns were delinquent, some said IRS records were in error. Of the 136 taxpayers contacted for delinquent taxes, 31 said they did not owe or had previously paid the taxes. Of the 76 taxpayers contacted for delinquent returns, 51 said they were not required to file or had previously filed the tax returns. In each of the 82 cases where the taxpayer disagreed with IRS' determination, IRS suspended collection action until the disagreement was resolved. Table I.1 shows how IRS resolved the 31 delinquent tax cases and 51 delinquent return investigations where the taxpayers disagreed with IRS' initial delinquency determination.

Table I.1:
IRS' Resolution of Taxpayers' Responses

	Taxpayer response		
IRS resolution	Did not owe or previously paid delinquent taxes	Was not liable or previously filed a return	Total
IRS agreed with taxpayer	10	31	41
IRS disagreed with taxpayer	18	16	34
Cases unresolved as of April 1986	3	4	7
Total	31	51	82

Of the 31 taxpayers who claimed they did not owe or had previously paid the taxes, IRS resolved 4 cases during the

telephone call--2 taxpayers were, in fact, not liable and 2 taxpayers had paid some but not the full amount of tax owed. In the remaining 27 cases, IRS suspended collection action and either researched other information already in its files or requested additional information from the taxpayers. IRS' further research of the 27 cases disclosed that 16 taxpayers actually were delinquent in the payment of taxes, 8 had previously paid or were not liable, and 3 cases were unresolved as of April 1986. Thus, IRS contacted 10 taxpayers who, contrary to IRS records, had fully paid their tax liabilities. Our analysis of these 10 cases showed that IRS suspended collection action and corrected the taxpayers' records. Most of the errors had resulted from processing and posting problems.

Of the 51 taxpayers shown in table I.1 who claimed they were not required to file tax returns or had previously filed the returns, IRS agreed with 22 of the taxpayers during the telephone calls and corrected the records. In the remaining 29 cases, IRS suspended collection action to research the case or have the taxpayer supply additional information. In 16 of these cases IRS ultimately determined that the taxpayer had not filed the required tax return as claimed, 9 had filed or were not required to file, and 4 cases were unresolved as of April 1986. Thus, IRS contacted 31 taxpayers who were either not liable or who had already filed a tax return. Posting problems were the main reason that IRS was investigating 9 of these taxpayers, and 6 taxpayers had filed late returns, which had not yet been processed by the service center. Regarding the remaining 16 taxpayers, it seems reasonable to assume that, since delinquent return investigations are based on potential leads, some number of such investigations will show that taxpayers were not required to file returns.

Processing and posting problems

As discussed previously, we identified 72 cases with 84 transaction problems, 52 of which involved processing or posting errors. Thirty-five of the transactions involved delinquent tax cases which, as shown in table I.2, consisted of payments posted to the wrong accounts, refunds issued in error, withheld income tax not credited to the taxpayer's account, and other information not properly posted to the taxpayer's account.

The errors we identified could have been caused by either IRS' or the taxpayer's errors. For example, 26 of the 35 problems involved payment posting errors which could have been caused by the taxpayers not providing IRS with the information necessary to post their tax payments to the appropriate account; or, IRS could have posted the payments in error. Because IRS does not retain information taxpayers supply with their payments, we were unable to determine the specific cause of the

problems. The remaining nine errors involved situations where IRS (1) issued a refund in error, (2) failed to credit a taxpayer's account for withheld taxes, and (3) improperly posted information or failed to post information to a taxpayer's account that would suspend collection action.

Table I.2:
Type of Posting or Processing Errors Identified in Analysis of Delinquent Tax Cases

Type of error	Number of errors
Payment posting errors	26
Refunds issued in error	4
Withheld taxes not credited to account	2
Posting errors affecting suspension of collection actions	3
Total	35

Of the 52 processing and posting errors, 17 involved delinquent returns investigations. The type of posting or processing errors we identified during our analysis of delinquent return investigations is shown in table I.3. Ten of the 17 errors involved businesses which, contrary to IRS procedures, had multiple identification numbers.[2] Thus, the posting errors occurred because the taxpayers had filed their returns under one identification number and IRS was investigating the delinquency of the returns under another identification number. The remaining seven errors were caused by IRS posting returns late, posting returns to the wrong account, or erroneously posting information to an account.

[2]We were unable to readily determine how these 10 businesses obtained more than one number.

Table I.3:
Type of Posting or Processing Errors Identified in Analysis of Delinquent Return Investigations

Type of error	Number of errors
Taxpayers using multiple identification numbers	10
Returns posted late	4
Returns posted to wrong account	1
Erroneous posting of information to an account	2
Total	17

IRS corrected all of the posting errors associated with our sample cases. Also, IRS officials have been working to minimize the extent to which posting problems occur. For example, IRS has been experiencing problems with taxpayers' use of the Federal Tax Deposit forms for payment of employment taxes. If these forms are not properly prepared to show the tax period and type of tax involved, payments may be posted to an incorrect account. IRS has recently revised these forms and their instructions and has worked with the American Institute of Certified Public Accountants to improve taxpayer understanding of the forms and the need for accurate information.

Certain taxpayer information not readily available to ACS personnel

While ACS personnel were generally able to resolve the delinquent tax and return cases with the information available on ACS, we found that of the 84 problem transactions, 32 could have been resolved in a more timely manner if ACS employees had access to additional information in IRS files. The type of additional information that was in IRS files but not readily available to ACS personnel in the 32 transactions involving delinquent tax cases and delinquent return investigations is shown in table I.4.

Table I.4:
Type of Information Not Readily Available to ACS Personnel

Type of information	Number of transactions: Delinquent tax accounts	Delinquent return investigations	Total
Taxpayer working with other IRS personnel to resolve delinquency	8	2	10
Taxpayer's prior filing and payment activities	6	12	18
Other	4	0	4
Total	18	14	32

Eighteen transactions involved delinquent tax cases where information known to other IRS personnel, but not to ACS personnel, would have helped resolve the cases more quickly. In eight of the transactions, the taxpayer had already contacted IRS collection personnel in the service center or district office to resolve their current delinquent tax cases but ACS personnel were not aware of these contacts. In six transactions it appeared that more detailed transaction information on the taxpayers' current and past tax records, which was included in IRS' master files, may have helped ACS personnel resolve the cases more efficiently. For example, a number of these taxpayers had previously had installment agreements with IRS, and the results of their past agreements may have assisted ACS personnel in making collection decisions on these cases. In the remaining four transactions, other information, such as the fact that the taxpayer was in bankruptcy, would have helped ACS personnel dispose of the cases.

In 12 of the 14 transactions involving delinquent return cases, prior tax return information would have helped resolve the cases. This information indicated that some taxpayers were not required to file the tax return in question and in other instances the information indicated that the taxpayer was liable for the return. In the remaining two transactions, the taxpayer had contacted other IRS collection personnel but this was not known to the ACS personnel. Although we found that all 14 transactions were finally resolved without significant adverse effects, we believe that the additional information would have helped IRS resolve the cases in a more efficient manner and thereby contributed to better taxpayer relations.

We discussed our belief with IRS collection officials who agreed and said that a new computerized collection system to be implemented in the near future should solve most of the information problems we identified. According to these officials, the new system, the Integrated Collection System, is being designed to provide more complete taxpayer information to all phases of IRS collection activities.

DISPOSITION OF CASES MONITORED ON ACS

We did not attempt to determine whether ACS personnel took the most effective means to collect delinquent taxes or to secure delinquent returns; however, we observed that the actions taken to resolve the cases generally appeared reasonable based on the information available to ACS personnel. As shown in Table I.5, ACS personnel secured full payment from 59 taxpayers and granted installment agreements to 26 taxpayers. Collection action was suspended on 20 of the cases because the taxpayers did not owe the taxes, had previously paid the taxes, or were unable to pay at the time. IRS was unable to resolve 23 cases on ACS and transferred these cases to revenue officers for additional work. The remaining eight cases were still open on ACS as of April 1986.

Table I.5:
IRS' Disposition of Delinquent Tax Cases on ACS

IRS disposition	Number of delinquent tax cases
Secured full payment	59
Granted installment agreements	26
Suspended collection action	20
Transferred cases to revenue officers	23
Still open on ACS as of April 1986	8
Total	136

IRS' disposition of the 76 delinquent return cases is shown in table I.6. As shown, ACS personnel secured returns from 23 taxpayers and filed returns on behalf of 4 taxpayers. ACS personnel also determined that 38 taxpayers were either not required to file the returns, had previously filed them, or owed little or no taxes. IRS was unable to resolve seven cases on ACS and transferred these cases to revenue officers for

additional action. The remaining four cases were still open on ACS as of April 1986.

Table I.6:
IRS' Disposition of Delinquent
Return Investigations on ACS

IRS disposition	Number of delinquent return investigations
Secured delinquent returns	23
Filed delinquent returns for taxpayers	4
Determined taxpayer not liable, had previously filed, or owed little or no taxes	38
Transferred cases to revenue officers	7
Still open on ACS as of April 1986	4
Total	76

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